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The natural road to specie payments

[New York]

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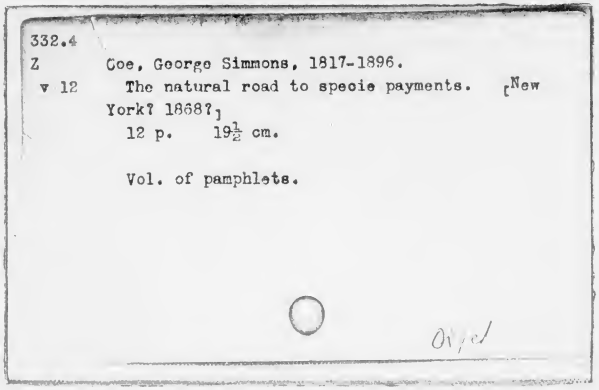


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No. 1

# THE NATURAL ROAD

TO

# SPECIE PAYMENTS.

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THE AMERICAN EXCHANGE NATIONAL BANK,
NEW YORK, *January* 27, 1868.

DEAR SIR:

I beg to acknowledge your communication asking my views on the condition of the currency. It has led me to a renewed examination of the whole question, the result of which I submit in the fewest words possible to so large a subject, and I ask for them your studious consideration.

The subject is cleared of much obscurity by considering in order, first, What is the nature of a true currency? What are its legitimate offices in commerce and trade? And second, How far we have departed from it, and how to return?

All true currency is in the nature of bills of exchange. These are legitimate only when drawn against products of industry, which they represent and convey through the channels of commerce and trade, and of which they are the title deeds. As such they can never be in excess of the public want because their amount is the measure of the property of the nation, passing into trade and commerce. The more there is of such currency the greater is the evidence of prosperity. A currency thus truly representative, also expresses the amount which the nation may expend without embarrassment or financial disorder. It is limited to the

value of the products of labor, which could be exchanged by barter, without the intervention of any paper currency whatever. The legitimate office of currency is simply to facilitate such exchange and distribution, and the genuineness of all forms of paper promises, used as currency, may be tested by this one standard, *that they represent and transfer some specific property, resolvable into money in the commerce of the world, and pledged for their redemption.*

The true office of a bank or banker in respect to currency, whether in foreign commerce or domestic trade, consists in receiving such bills or notes as represent products of industry moving toward the places of consumption, issuing in exchange for them his own bills in sums as required for public convenience, but equal in aggregate amount; so that the proceeds of the one may redeem the other. He is simply a subdivider or retailer of quantities, for the more minute distribution of the fruits of labor and service.

This statement, so simple and self-evident, is fundamental to a just comprehension of the situation of the country.

A bill or note used as currency, is also *an instrument of expenditure.* If issued against nothing present, but against something to be hereafter acquired or produced, it enables the holder, so far as the note can command the public confidence, to expend the fruits of labor, beyond the power of present restitution. It thus secures the actual products of the



labor of others, for simple promises to give our own at some time, indefinitely future. The inevitable consequence of such a currency is the suspension of coin payments—money cannot be ready to redeem such promises, because they conveyed no equivalent of money. This is, of course, no less true of the whole nation, than of each individual composing it.

Now a Treasury note differs from a legitimate bank-note, or a note of commerce, in this important particular, that having been given for articles consumed in war, it had not, when emitted, the essential attribute of true currency. It represented no equivalent in commerce or trade, nothing passing to secure its redemption. It was simply a debt: the evidence of want, not of wealth; of the absence, not of the presence of redeeming power.

To give such promises the form of money, was simply to create instruments by which the people could expend the future earnings of the nation. And this without the restraints which the necessities of present compensation naturally impose. Hence the phenomena of prodigality and extravagance which have since so strikingly characterized the nation.

It is not necessary now to inquire whether or not this was unavoidable as an expedient of war. My purpose is simply to present the essential difference between the public debt, as thus used, and the true currency of commerce.

Suspension of specie payments was the inevitable

consequence of thus injecting into trade an element not the growth of its natural operations. Every dollar issued was a step from specie value. It expressed the absence of any present equivalent for its redemption, and therefore lacked the indispensable commercial property of currency.

The conclusion is therefore irresistible that, being without a constituent, and irredeemable from the very start, this currency can now be made equal to coin only by placing under it, dollar for dollar, the full equivalent in the Treasury.

Receiving our ideas of currency from the associations and precedents of trade and commerce, we hastily conclude (and many of the Senators have so expressed themselves in debate), that the resumption and maintenance of specie payments is possible, whenever an accumulation in coin, of a larger or smaller proportion of the amount of notes outstanding, is deposited in the Treasury. This would be true of an issue of currency given in exchange for notes representing equivalent value in commerce and trade, by which the remainder could be certainly commanded as required; but it can never be true of one whose notes were evidence of a want of the whole amount promised.

I consider it, therefore, perfectly demonstrable that specie payments cannot be permanently maintained until Government is in condition to pay nearly, or quite, the full amount of the legal-tender notes in coin, or can withdraw them entirely from currency, by funding into bonds.



This is further evident when we remember that the banking system was constructed after suspension by government, and that the currency issued under it possesses the substantial characteristics of legal-tender currency, upon which those issues now rest. The system has not yet been tested and purified by any form of redemption whatever. Its notes were emitted in exchange for the public debt, and they have, in a great measure, again been given by the banks, in exchange for the same debt, or upon fixed property not resolvable into money, or upon commercial products at currency prices—not the equivalent of coin. All these notes are endorsed by the Government, which would be, therefore, as liable for them in coin as for its own.

Furthermore, the legal-tender currency having been made the basis of credit, and the ultimate resource both of the banks and of Government, and the reserve, also, for balances of trade, will demand extraordinary specie support to meet all these requirements.

Your own familiarity with practical banking will expand the thoughts at which I have hinted. My only object is to show how far we have departed from the real commercial basis, with a view of finding the way back.

*How, then, can specie payments be re-established?*

First, by keeping constantly in view the fundamental idea that the products of labor and their

economical use, are the only possible resource. Our study must be simply how best to reorganize *about them* the proper instruments of commerce and trade, so as to restrain expenditure within the limits of production, and thus to secure means to redeem the past.

Nor can this effort be harmlessly delayed. The present currency will, from its very nature, continue to work impoverishment so long as it remains in form of multiplied instruments of expenditure disproportionate to means. This wasting process is demonstrated by the rapid transfer to Europe of the national debt, which still further augments the tax upon the future, by the inadequate sum it produces. There seems no reason, in the nature of the case, why the same influence continued, should not carry abroad so large a proportion of the funded debt as, ere long, to render the situation irretrievable.

The method generally proposed for resumption of specie payments consists in a gradual withdrawal of the legal-tender currency. This is undoubtedly true, but it will better proceed as a *result* of natural processes than by making it a moving cause. It is, certainly, one stage in the progress toward restoration, but not the first one.

Does the withdrawal of a portion of this currency change the essential character of the rest? However much reduced in quantity, is it not still irredeemable?

Moreover, it is now the only legal instrument of trade. How can it be withdrawn without producing



inextricable confusion, unless another and a better one be substituted, upon which trade can safely rest? As gradually, and even before one structure is removed, must another be commenced.

The practical effect of the legal-tender act was not only to establish public debt as the currency of trade, but to prohibit for home uses, the money of commerce. It interrupted financial concord between internal trade and external commerce, so that the movement of coin was thenceforth only outward. This was the inevitable result of depriving dealers in it of legal protection, and of permitting even specific contracts in coin, to be fulfilled by the nominal sum in public debt. In the contract for bread the law compels to receive a stone. The necessary consequence was the transfer to Europe, to Canada, and elsewhere, of large amounts of coin where interest on it could be secured, with the legal right of recovery. It still prevents its return. It offers a premium to fraud, and even restricts honest transactions in the money of the world, from the inability of legal agents and administrators to comply with the just intentions of their principals. It imposes a vexatious impediment to commerce and trade, by the necessity of incurring a similar risk in sales of foreign goods, or of accepting in every time transaction a speculative operation.

Now my suggestion, as a first step toward resumption, is simply this: to so far modify the act, that *henceforth all transactions by agreement made in coin may be legally enforced in coin or its equivalent.*

With this simple exception, the legal-tender law should remain in full force and effect. It has so far become the basis of all contracts, that its abrogation now, would be manifestly unjust. There is both a fairer and a better way.

Reasons of public policy can no longer be urged, why the natural right of citizens to deal in the money of commerce should not be protected by the law. With this prohibition upon future transactions removed, commerce would gradually and certainly resort to its true instruments. It naturally seeks to be released from all sorts of legal impediments.

The effect of a measure so just and yet so simple, would be at once to reverse the results referred to. It would immediately utilize coin, and draw it from hoards. It would not only prevent its exportation abroad, but would tend to attract it hither, where the field for its use, is so varied and superior. It would reunite the broken chain which connects us with the financial world, and allow merchants in foreign commerce to conduct their business without legal impediment; and it would gradually and certainly introduce the same basis into internal trade, which would gradually therein extend by virtue of its beneficent operations. Every citizen who chooses to resume specie payments for himself, would be allowed to do so, the legal-tender act remaining in force for those who do not.

It would permit a voluntary resumption by the people, one by one, without restraint. There would then exist *for a time two currencies*, one of law and one of special contract.



Banks in the commercial cities would immediately adapt themselves to the new condition, by conducting their business in the two kinds, naturally accumulating coin as it became gradually into use, and applying their expedients of deposits, checks, clearings, loans and discounts to each kind respectively, thereby at once creating a new currency of commercial equivalents within the present one of public debt.

The banking system, being now based entirely upon the legal-tender currency, would then of necessity prepare to substitute for it the solid foundation of commercial equivalents. To this work every sound institution would at once address itself, and thus assist the general progress.

Can any practical man doubt the good results?

Thrift, providence and economy would at once be revived; industry would be stimulated by the certainty of exact rewards, and means would thus be provided to carry the funded debt at home. The course here suggested is also no less a Government necessity. The coin of the country is slowly diminishing by the expulsive force of the currency referred to. There is believed by men of careful observation to be less than two hundred millions remaining. A panic from any cause might suddenly reduce it to an amount insufficient for the convenient operations of the Treasury, unless some means be adopted to reverse the tendency to diminution. This will be best effected by the inherent force of trade and commerce, when once allowed its natural operations.

The augmenting amount of interest upon the gold debt in the progress of funding may also at times exceed the Customs revenue. Should it do so, it would then be practicable, from inflowing streams, to secure the small deficiency by a gold tax on specific subjects, as commerce shall provide the ability. Thus will the currency upon a gold basis be quietly enlarged and advanced, until both Government and people are together restored.

*But what shall be done with the legal-tender currency?*

A reply to this question completes the subject. Having erected a new platform for trade, or rather having loosened the manacles which now restrict its natural operations, it will be necessary *simply to allow full liberty to fund the legal-tender notes into bonds, as any holder may desire.*

Then, as the new currency increases, and the public voluntarily grow into it, will a way be opened for the disposition of the old, which will insensibly fall into disuse, while the consequent returning commercial property, attended by thrift and industry, will create a new demand for the bonds into which the currency is converted. The great result will thus be attained without violent change or spasmodic action, but by the beneficent operation of natural laws. The question will be at once transferred from the realm of Politics to that of Providence.

Now, in order to test the soundness and sufficiency of these two simple measures, let us inquire how contraction can proceed while the legal restriction upon specie obligations continues, without



either strangling the operations of trade, or compelling the creation of other irredeemable substitutes.

Will not the whole ingenuity of banks and people outside the Treasury Department be necessarily directed to a corresponding enlargement of the area of irredeemable credit, to take the place of the currency withdrawn? The restriction must therefore be removed, from imperative necessity. It will otherwise force itself by violence. It is wiser to remove it now, before the specie in the country is further reduced.

We have reached a point in our financial history when distrust and uncertainty have arrested the course of industry. The business community are, to a great extent, standing idle and are being consumed with expenses. They dare not exchange products of industry or contract obligations, when the return is so uncertain. If the currency remain as now, it will continue its wasting effect. If it be increased, impoverishment will be accelerated. If contracted, without a substitute, business will be further deranged. The two measures proposed seem to open the way of escape. Their simplicity should commend them.

When freedom of action in these two particulars is thus secured, and a little time elapses for industry to be reorganized, we may reasonably expect prosperity in the country, without a parallel. Commerce and trade will advance with a bound. With the vast area of fertile land, rapid immigration, and

universal liberty, the ability of the country to sustain the public debt can never be questioned. Until then, it is worse than idle, it is wicked, to discuss the question of the payment of the funded debt. The option attaching to the 5-20 bonds will continue, and may then at any time be honorably availed of, upon a basis of commercial equivalents, at a reduced rate of interest. Upon that subject there are the greatest advantages in delay. The question of the currency demands *instant* attention.

Truly yours,

GEO. S. COE.

HON. JOHN V. L. PRUYN,
*House of Representatives,*
*Washington, D. C.*

END OF
TITLE